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LEBANON

Fighting slackened yesterday, following the announcement Saturday night of a cease-fire. Skirmishing and sniper fire continue to make some suburbs of Beirut unsafe, however, and prevent the reopening of some major roads out of the city. A dusk-to-dawn curfew remains in effect.

The cease-fire reportedly is the first part of a two-stage agreement hammered out Saturday by Lebanese and Palestinian leaders in discussions with Syrian Foreign Minister Khaddam and chief of staff Shihabi.

The second stage provides that all parties to the conflict are to participate in "national reconciliation" talks. These will include discussions on the possibility of expanding the cabinet, consideration of the social and political demands of Lebanese leftists, and possibly the question of Lebanese-Palestinian relations.

Khaddam and Shihabi, who are being given most of the credit for arranging the reduction in the fighting, continued their rounds of intensive discussions with the Palestinians and Lebanese political and religious leaders yesterday, apparently in an effort to firm up the truce agreement. The US embassy in Beirut reports, however, that there is considerable skepticism that real progress will be made soon, with such intractable points at issue.

Growing concern in Beirut that the country's internal instability could lead to more direct outside intervention may have played a part in convincing all sides to try to calm the situation. The US embassy reports, for instance, that Khaddam's offer to provide Syrian forces to patrol Beirut brought home to the Lebanese the gravity of the situation.

Israeli Foreign Minister Allon's warning over the weekend that Damascus should not assume it has a free hand to intervene in Lebanon—and his veiled threat that Tel Aviv itself might feel constrained to do so if Syria did—received extensive coverage in the Beirut press.

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PORUGAL

The democratic orientation and pragmatic economic outlook of the new cabinet will bring positive changes in government policies, according to the US embassy in Lisbon.

The anti-Communist majority in the cabinet will be reinforced in the subcabinet. Negotiations are not yet complete, but the latest information indicates that out of a total of 34 positions, the Socialists will receive 12 and the center-left Popular Democrats 11.

The new government is expected to concentrate its efforts toward establishing a strongly pro-Western foreign policy, instituting realistic economic measures to retard further deterioration; diminishing Communist control in the media and labor organizations; and planning for local, national assembly, and presidential elections—which, according to Socialist leader Soares, Prime Minister Azevedo has promised for February.

New Foreign Minister Antunes, who was formerly known to favor an alliance with the Third World, appears to recognize the need for strong ties to Western Europe at this time. Socialist leaders, who strongly support close relations with European Social Democrats, have full confidence in Antunes' Western orientation. Both Antunes and Foreign Trade Minister Campinos, a Socialist, have made favorable impressions on European officials in the past and can be expected to begin efforts to attract aid for Portugal from Western Europe and the US.

The new economic team, also dominated by the Socialists, will concentrate on repairing the damage done to the economy by the radical initiatives of the Goncalves regime. The team is not expected to rescind the nationalization and agrarian reform measures already in effect, but it will attempt to consolidate and organize the companies and land that now belong to the government.

The Socialists plan to call for long-term economic recovery measures after they have received legitimate authority through elections.

The Socialists' scheme also calls for eliminating Communist strongholds in local governments, labor, and the media. The three cabinet positions that bear on these critical areas are held not by Socialists but by individuals who are judged by the US embassy to be well qualified and strongly anti-Communist:

--Commander Almeida e Costa, the new interior minister, was largely responsible for organizing the constituent assembly election in April; the balloting was run fairly, despite heavy Communist influence in the government.

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--Labor Minister Tomas Rosa, an army captain, told US embassy officials that he intends eventually to remove all Communists from key positions in his ministry.

--Information Minister Almeida Santos is, according to embassy contacts, considered capable of weakening the Communists' domination of the press, radio, and television.

Reaction to the new government has been light. The Socialists issued a communique praising the cabinet and the prime minister. The Communists' statement was defensive, explaining that they accepted one portfolio only to prevent a right-wing government from taking control.

The Communists' grudging acceptance of the new cabinet is not shared by the various extreme left-wing organizations. These groups have been critical of all governments since the military coup, but there is concern now that distrust of a Socialist-dominated government may lead to a wave of terrorist activity. Several armed groups based in Lisbon were active during the Salazar and Caetano regimes.

Right-wing exile groups probably pose a more serious threat to the new government. One of them, the Portuguese Liberation Army, has claimed responsibility for the bombing yesterday of a navy building where Prime Minister Azevedo was staying. The group is reportedly based in Spain and connected with former president Spinola's forces.

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WEST GERMANY

Chancellor Schmidt has ordered a general review of policy toward the European Community. His main objective is to force the EC Commission to adopt a more tight-fisted policy on financing Community programs. The German cabinet will discuss various ministry recommendations at a meeting scheduled for September 29.

During the past year, the Chancellor has frequently expressed dissatisfaction with the Commission's implementation of Community programs. Schmidt's unwillingness to allocate funds for the two EC scientific research centers in Italy and the Netherlands, in fact, triggered criticism from "European-minded" Free Democrats in the cabinet and provided the impetus for the present policy review.

Schmidt has also been disturbed by the high cost of the common agricultural policy. He has stated that Bonn will not allow European agricultural prices to be pegged at the price levels of those community members which have much higher rates of inflation than West Germany.

The Chancellor reaffirmed his hope to make the Commission more "finance-conscious" in his opening speech to the Bundestag this week. This position parallels the new budget austereities that Schmidt is recommending at home.

The agenda for the cabinet meeting will include a review of proposals to improve the Community's agricultural price support program, the status of the EC research centers, preferential trade arrangements with 46 underdeveloped countries under the Lome Convention, and such institutional questions as strengthening the European parliament in Strasbourg by popular elections of its deputies.

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SOUTH AFRICA

South African Finance Minister Horwood has announced a currency devaluation of 17.9 percent as part of an effort to curb that country's deteriorating balance of payments. The devaluation, which becomes effective today, is of unprecedented size; it follows by just three months a 5-percent devaluation.

Falling gold production and prices and stagnating exports have been forcing Pretoria to rely extremely heavily on foreign borrowing to offset trade deficits. South Africa, which accounts for more than 50 percent of world gold output, has been counting on gold sales to finance a deficit from \$3.5 billion to \$4 billion. International gold prices, however, have fallen from \$195 an ounce in December 1974 to less than \$140 last week.

Increasing working costs and depletion of the country's richest ore reserves have been steadily depressing South African gold output, which is projected at about 700 tons this year compared to 760 tons in 1974. Pretoria already increased its foreign borrowing to more than \$2 billion in the year ending June 30, 1975.

The finance minister has also announced measures to tighten bank credit in an effort to offset the inflationary impact of the devaluation. The inflation rate currently is more than 12 percent annually. A recent South African study projected a rate of 18 percent by the end of 1975.

The devaluation may force South Africa to delay some of its ambitious industrialization plans. Some of the largest projects call for the expenditure over the next several years of \$2.9 billion for telecommunications, \$5.5 billion for new electric power stations, and \$2.8 billion for expanding ports and other shipping facilities.

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ANNEX

South Vietnam Five Months After the Fall

The end of the fighting in Vietnam ushered in a new period of uncertainty in Southeast Asia, but today there is little doubt about the totality of the Vietnamese, Lao, and Khmer communists' victories. Despite the continued existence of a separate South Vietnamese political apparatus in the form of the Provisional Revolutionary Government, de facto reunification of South with North Vietnam was accomplished with the fall of Saigon.

Information is scarce on specific policies and actions of the new communist administrations anywhere in Indochina. It has become clear, however, that the new regimes will be preoccupied for some time by the enormous tasks of economic reconstruction and political consolidation.

These problems, at least in the case of Cambodia and South Vietnam, were greatly magnified by the very abruptness of the communist take-overs. The Vietnamese communists, for example, did not anticipate the collapse of the former South Vietnamese government last spring and were not prepared to assume administrative control of the country. Initial euphoria following the fall of the Thieu regime gave way quickly to a recognition of the serious economic and administrative problems confronting South Vietnam.

North Rules in South

Nearly five months after the fall of Saigon, South Vietnam remains under a form of martial law. A "military management committee," headed by North Vietnamese General Tran Van Tra, makes the day-to-day decisions and issues all political, administrative, and economic directives.

The primary authority, however, appears to be Pham Hung, fourth-ranking member of the North Vietnamese Politburo, who is in charge of party and military affairs in the South.

The South Vietnamese Provisional Revolutionary Government, which ostensibly serves as a national government, has no meaningful authority over either Pham Hung or the military management committee.

Earlier communist promises about "national reconciliation and concord" undoubtedly have been a bitter disappointment to the many former neutralists and

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third-force personalities who had hoped to play a role in a new southern government. People like General "Big" Minh are occasionally seen walking the streets of Saigon, but they have no political role, meaningful or otherwise.

We have little exact information about the new government system being developed throughout the country, although it does appear that the pace of forming the new administration has been slow and will perhaps continue to be more time-consuming than the communists anticipated.

Importing Officials

Immediately after the take-over, the communists moved to offset the lack of capable and trustworthy administrators by importing large numbers of officials from the North. [redacted] within a few weeks after Saigon's collapse, nearly one third of North Vietnam's bureaucracy had left for the South. Many of these appear to have been former southerners who had come north at the time of the 1954 Geneva accords.

The communists are also moving to "rehabilitate" former South Vietnamese bureaucrats and return them to their old positions. In July, the communists began to register their displeasure both with the small number of former government personnel who had signed up for rehabilitation and with the results of the program thus far. It was announced that the length of the course had been extended by two months, meaning that the first graduates of the program may only now be moving into the administrative structure.

Communist policies to date primarily have been aimed at the restoration of order and economic recovery. On the first point, the communists adopted a relatively conciliatory approach in order to mobilize support. But given the long and bitter nature of the Vietnamese conflict and the abundance of firearms in the country, it is hardly surprising that the communists are admitting to opposition from a variety of sources:

- former government soldiers unwilling to take their chances in the new communist society;
- religious sects;
- ethnic minorities in the highlands as opposed as ever to Vietnamese domination of any stripe;
- South Vietnamese who have managed to elude the "re-education" process and taken to banditry in order to survive.

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More Worrisome

The economy probably is a far more worrisome problem. The communists admit that it is still in bad shape. Low production and high unemployment have reduced living standards in Saigon and the rest of the country.

Considerable help from Hanoi's foreign allies will be required to get the economy on its feet. The Vietnamese lack the fertilizer, machinery and parts, and fuel to become self-sufficient in food for at least the next couple of years, despite expanded farm acreage. Moreover, industry relies almost exclusively on foreign materials, and the country's foreign-exchange reserves are insufficient to cover more than a fraction of the South's needs.

The communists so far have not attempted to make fundamental or sweeping changes in the South's economic structure. Some banks have been reopened, but on a piecemeal basis. While the largest industrial enterprises have apparently been seized by the state, the communists are depending heavily on private enterprises to revive the economy.

Refugees, demobilized South Vietnamese troops, and other urban dwellers are being sent to the countryside to resume farming, but so far a coordinated effort to collectivize agriculture has been lacking.

The North Vietnamese did not begin to collectivize agriculture in the North until two years after the 1954 Geneva Agreement. It will probably be at least as long before the communists move in this direction in the South Vietnamese countryside.

Gradual Process

Vietnamese officials, both North and South, proclaim formal reunification as their foremost objective. At the same time, they make it clear that the process will be a gradual one that will follow progress in developing an acceptable communist administrative structure and in restoring order and economic stability.

In the meantime, the North Vietnamese can be counted on to keep a close eye out for any show of Southern independence or of vested Southern interest in the new governmental machinery.

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The Viet Cong's Provisional Revolutionary Government is functioning as a "government" only in the diplomatic sphere, and is kept on a short leash even there. Although the Provisional Revolutionary Government has established diplomatic relations with over 80 countries, not one of these—even Hanoi's closest communist allies—has been allowed to open an embassy in Saigon.

Hanoi has permitted some countries to accredit their ambassadors to Hanoi and Saigon as well. Although this arrangement might be helpful in maintaining the fiction of an independent South Vietnamese state, there is no question but that Vietnam is now one country with one policy.

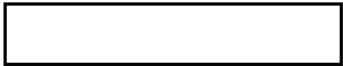
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